

VZCZCXRO7667
OO RUEHCHI RUEHDT RUEHHM
DE RUEHML #3340/01 2780952
ZNR UUUUU ZZH
O 050952Z OCT 07
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8515
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
INFO RUCPDOG/USDOC WASHDC IMMEDIATE
RUEHXS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE
RHHMUNA/CDR USPACOM HONOLULU HI//FPA//

UNCLAS SECTION 01 OF 02 MANILA 003340

SIPDIS

SIPDIS

STATE FOR EAP/MTS, EAP/EP, EEB/IFD/OMA
STATE PASS EXIM, OPIC, AND USTR
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE
TREASURY FOR OASIA
USDOC FOR 4430/ITA/MAC/ASIA & PAC/KOREA & SE ASIA/ASEAN

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [RP](#) [CM](#)

SUBJECT: Philippine-China Summit Dominated by Scandal

Ref: Manila 2456

¶1. Summary: Philippine President Gloria Macapagal-Arroyo reportedly spent much of her October 2 meeting with Chinese President Hu Jintao explaining bribery allegations that forced her to cancel a \$330 million national broadband network contract and suspend other projects funded by China (reftel). Philippine media coverage of the summit concentrated almost entirely on the ramifications of the scandal, and the government has been distracted from other issues. Given the importance of China's economic assistance to the Philippines and growing trade and investment ties between the two countries, both sides are trying to put the scandal behind them. However, the scandal could drag on for some time and further tar the Arroyo administration. End summary.

Allegations of Corruption and Improper Influence

¶2. Allegations of Philippine Government officials' illegal conduct and bribery offers have tainted the \$330 million suppliers' contract for a government National Broadband Network since it was signed in China in April. These allegations snowballed in recent days after lengthy testimony during senate hearings that implicated the Commission on Elections Chairman Benjamin Abalos and also detailed possible intervention in the deal by President Arroyo's husband Jose Miguel "Mike" Arroyo.

¶3. Last week, former National Economic and Development Authority Secretary Romulo Neri told senators that Commission on Elections

SIPDIS

Chairman Benjamin Abalos had offered him 200 million pesos to expedite the project review process for a proposal by China's state-owned Zhong Xing Telecommunication Equipment (ZTE) Corporation to build a "National Broadband Network" in the Philippines for use by Philippine government agencies. Neri testified that he reported the bribe attempt to President Arroyo, who instructed him to reject the bribe but approve the project. The head of a rival broadband company (the son of House Speaker Jose de Venecia) earlier testified that Mike Arroyo had demanded him to withdraw his own company's broadband proposal. In the face of likely impeachment proceedings by the House of Representatives, increasing public outcry, and eroding support from senior Government officials, Abalos resigned his position on October 1.

Emotional Outburst Directed at Chinese

¶4. The testimony before the Philippine Senate last week was also notable for Senator Miriam Santiago's (Chairman of the Senate

Foreign Relations Committee) emotional outburst that "the Chinese invented corruption for all human civilization," for which the Chinese Embassy demanded and received an apology. Several observers have told us that Senator Santiago's statement, while inappropriate, accurately expressed a widespread Filipino belief that Chinese businesses frequently use unethical business practices. During the testimony, one Philippine newspaper published a column contrasting the perception of unethical Chinese business practices with the perception of honest American companies, which included a favorable explanation of the U.S. Foreign Corrupt Practices Act.

Damage Control

15. The Arroyo administration has struggled to contain the damage by forming a panel to review all Chinese government-funded projects in the Philippines and putting on hold the broadband project, a cyber education project, and two large agricultural projects. On October 2, Arroyo announced from Shanghai that the broadband contract with ZTE would be cancelled, and in Manila, Arroyo's Executive Secretary Eduardo Ermita told reporters he saw no more need for further Senate investigation after the cancellation of the contract and the resignation of Abalos. It is currently unclear whether the Senate investigation into the broadband scandal will continue and whether any of the many other Chinese government projects in the Philippines that are currently suspended will be cancelled. Certainly, these projects will be subjected to closer scrutiny.

Setback for Chinese Government

16. Our contacts report that the Chinese government views the frenzied media reporting linking a Chinese state-owned company with bribery of Philippine officials as a setback to Chinese efforts to expand its influence in the Philippines through low-interest loans. Meanwhile, the Chinese Embassy claims that the scandal is a "purely

MANILA 00003340 002 OF 002

domestic Philippine affair." We have also verified that Nueva Vizcaya Representative Carlos Padilla on August 28 filed charges against several of the individuals involved in the scandal with the Office of the Ombudsman, which investigates and prosecutes graft and corruption cases involving government officials. Investigators have not yet questioned local ZTE executives or asked the company for its records.

Comment

17. While some observers believe that President Arroyo's cancellation of the broadband project and Abalos' resignation may be enough to end the Senate investigation, others note the seriousness of the allegations, the separate Ombudsman investigation and other questionable Chinese-funded projects as factors that will keep the scandal alive. These allegations of corruption in the ZTE broadband project only add to cynicism concerning the Government's commitment to root out corruption and certainly have the potential to weaken the Arroyo administration.

KENNEY